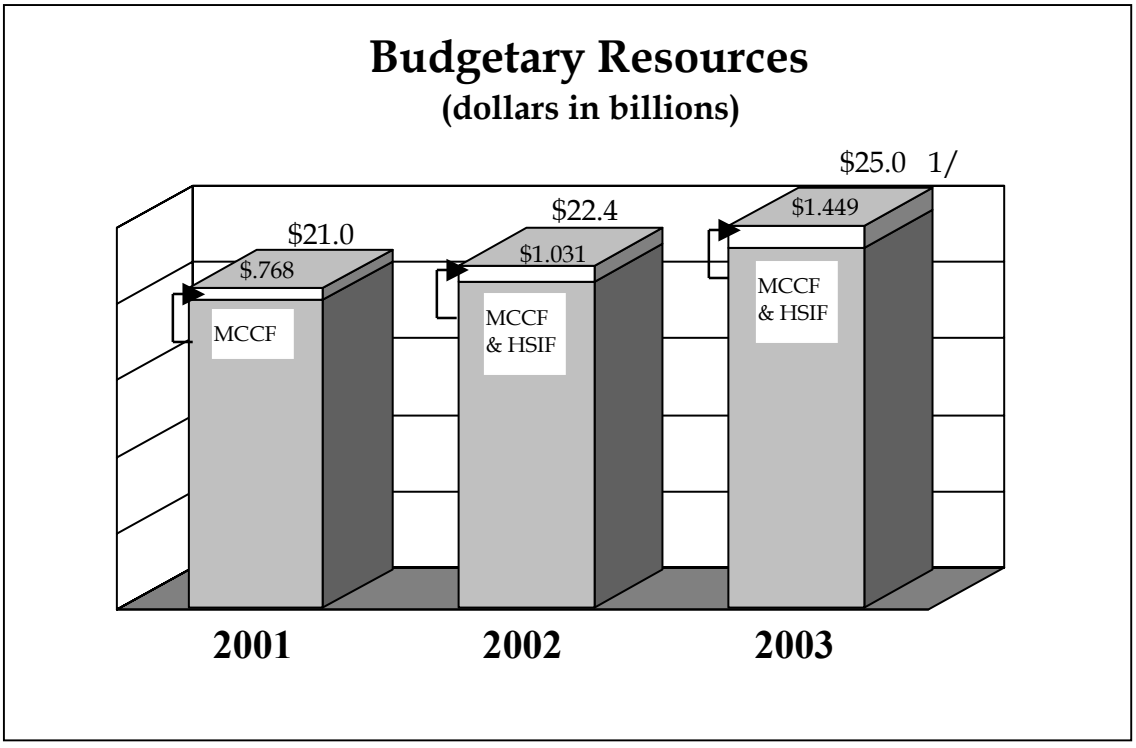
# Medical Care

The Medical Care appropriation provides the resources to operate a comprehensive and integrated health care system that supports enrolled veterans; a national academic education and training program to enhance veterans' quality of care; and administrative support for facilities. The mission of the veterans' health care system is to serve the needs of America's veterans. Enrolled veterans receive the needed specialized and primary medical care and related social support services. To accomplish this mission, the Veterans Health Administration (VHA) is a comprehensive, integrated health care system that provides excellence in health care value; excellence in service as defined by its customers; excellence in education and research; and excellence in timely and effective contingency medical support in the event of national emergency or natural disaster. In addition, it is an organization characterized by exceptional accountability and an employer of choice.




1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual of $793 million only in 2003.

The 2003 President's budget includes the Medical Care program with budgetary resources of $25.0 billion, an increase of $2.6 billion over the 2002 resource levels. VA is requesting $23.5 billion for the direct Medical Care appropriation, an increase of $2.2 billion. The 2003 funding includes $793 million to pay the full cost of CSRS and FEHB retirement accrual as proposed in the Administration's Managerial Flexibility Act of 2001. The $25.0 billion funding level is comprised of $23.5 billion for the direct Medical Care appropriation, which reflects a legislative proposal offset of $1.1 billion for charging Priority 7 veterans a $1,500 deductible. It also reflects Medical Care Collection Funds (MCCF) of $1,084 million, an increase of $279 million, and Health Services Improvement Fund (HSIF) collections of $365 million, an increase of $139 million over the 2002 level. VHA is allowed to retain third party collections from insurance companies, first party co-payments, and related medical fees in the MCCF and specific co-payment changes in the HSIF to support veterans' medical care.

***2003 Funding Reconciliation***
***(dollars in thousands)***

| | FY 2002 Estimate | FY 2003 1/ Estimate | Increase (+) Decrease (-) |
|---|---|---|---|
| Medical care existing | $ 21,331,164 | $ 23,888,882 | +$2,557,718 |
| Priority 7 veteran $1,500 cost share deductible 2/ | 0 | -1,145,121 | -1,145,121 |
| Subtotal, medical care policy request | 21,331,164 | 22,743,761 | +$1,412,597 |
| CSRS retirement accrual | 0 | 251,515 | +251,515 |
| FEHB retirement accrual | 0 | 541,907 | +541,907 |
| Appropriation transfer to GOE 3/ | -1,086 | 0 | +1,086 |
| Medical care and proposed legislation | $ 21,330,078 | $ 23,537,183 | +$2,207,105 |
| Transfer from Health Svcs. Imp. Fund (HSIF) | 226,000 | 365,000 | +139,000 |
| Transfer from MCCF | 805,000 | 1,083,874 | +278,874 |
| Subtotal, Medical care | $22,361,078 | $24,986,057 | +$2,624,979 |
| Reimbursements | | | |
| Sharing & other reimbursements 4/ | 155,000 | 180,912 | +25,912 |
| Subtotal, Reimbursements | 155,000 | 180,912 | +$25,912 |
| Adjustments to obligations: | | | |
| Changes in unobligated balance | 407,531 | 227,966 | -179,565 |
| Recovery prior year obligations | 3,000 | 3,000 | $0 |
| **Total Obligations** | **$22,926,609** | **$25,397,935** | **+$2,471,326** |

1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual only in 2003.
2/ Legislative proposal reflected in Section 423 of the General Provision of the budget request.
3/ FY 2002 reflects a transfer of funding from Medical Care to GOE for the Office of Operations, Security, and Preparedness.
4/ FY 2003 includes $40 million for long-term co-payments reimbursed from Extended Care Revolving Fund.

## *Obligations and Financing*
### *(dollars in thousands)*

| | 2001 Actual | 2002 Estimate | 2003 1/ Estimate | Increase (+) Decrease (-) |
|---|---|---|---|---|
| **Program:** | | | | |
| **Provision of veterans health care:** | | | | |
| Acute hospital care | $5,366,671 | $5,513,494 | $5,880,894 | +$367,400 |
| Rehabilitative care | 426,119 | 450,886 | 488,365 | +37,479 |
| Psychiatric care | 1,211,149 | 1,192,758 | 1,223,025 | +30,267 |
| Nursing home care | 2,032,463 | 2,115,323 | 2,319,335 | +204,012 |
| Subacute care | 371,158 | 356,879 | 358,305 | +1,426 |
| Residential care | 404,981 | 418,880 | 436,670 | +17,790 |
| Outpatient care | 10,221,954 | 11,418,081 | 12,962,548 | +1,544,467 |
| Miscellaneous benefits & services | 1,121,509 | 1,222,445 | 1,332,180 | +109,735 |
| CHAMPVA | 160,365 | 237,863 | 396,613 | +158,750 |
| **Total Obligations** | **$21,316,369** | **$22,926,609** | **$25,397,935** | **+$2,471,326** |
| **Financing:** | | | | |
| Medical care | $20,281,587 | $21,331,164 | $23,888,882 | +$2,557,718 |
| Priority 7 veteran $1,500 cost share deductible | 0 | 0 | -1,145,121 | -1,145,121 |
| CSRS retirement accrual | 0 | 0 | 251,515 | +251,515 |
| FEHB retirement accrual | 0 | 0 | 541,907 | +541,907 |
| Appropriation transfer 2/ | -53,495 | -1,086 | 0 | +1,086 |
| Recission (Public Law 106-554) 3/ | -45,882 | 0 | 0 | 0 |
| Transfer from HISF | 0 | 226,000 | 365,000 | +139,000 |
| Transfer from MCCF | 767,687 | 805,000 | 1,083,874 | +278,874 |
| Reimbursements | 127,247 | 155,000 | 180,912 | +25,912 |
| Recovery prior year obligations | 0 | 3,000 | 3,000 | 0 |
| Unobligated balance expiring | -1,896 | 0 | 0 | 0 |
| Unobligated balance available (SOY) | 1,324,183 | 1,083,062 | 675,531 | -407,531 |
| Unobligated balance (EOY) | -1,083,062 | -675,531 | -447,565 | +227,966 |
| **Total Resources** | **$21,316,369** | **$22,926,609** | **$25,397,935** | **+$2,471,326** |
| **FTE** | **182,946** | **181,500** | **181,331** | **-169** |

1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual only in 2003.

2/ FY 2001 reflects transfers of $53,495,000 from Medical Care to GOE, GSA, and the Parking Fund. FY 2002 reflects a transfer of $1,086,000 from Medical Care to GOE for the Office of Operation, Security, and Preparedness.

3/ FY 2001 reflects the government-wide rescission of $45,882,000 enacted in P.L. 106-554.

At the start of a new century, the transformation in the VA health care system continues. Events such as changes in health care financing, provisions of new services, new collaborative arrangements, and new technologies continue to impact the evolving marketplace. Profound changes have occurred in the health care system and even more change is expected as the Department continues to enhance quality, increase access, improve service satisfaction, and optimize patient functioning. VA's transformation has led to a truly coordinated continuum of care and a system characterized by achievement of performance outcomes to improve services to veterans.

VA continues to develop its national, integrated health care delivery system. The future system will require VA components to function together and in concert with public and private health care facilities, to meet the health care needs of the enrolled population, and to minimize duplication of services. This system will promote efficiency, assure high-quality care, and provide optimal access for the veteran population.

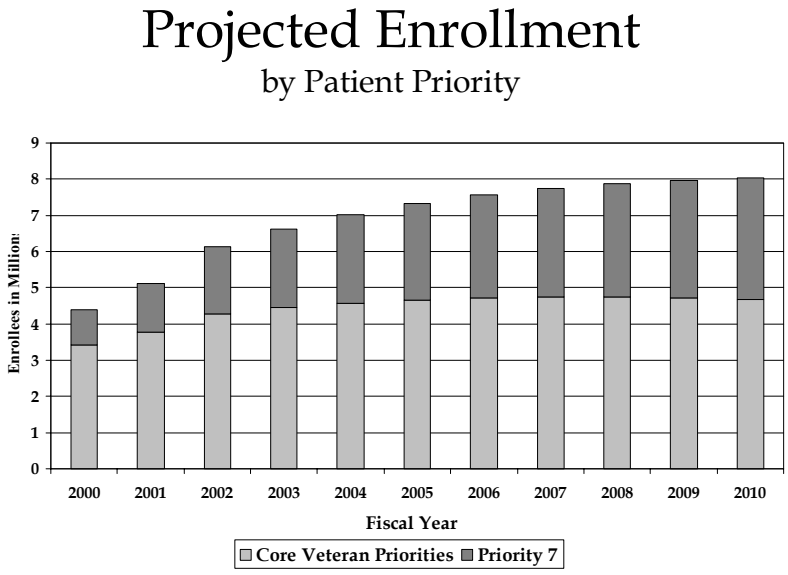
## Medical Workload Growth and Quality of Care

VA has experienced unprecedented growth in the medical system workload over the past few years. The annual growth rate in patients treated for 2001 and the first quarter of 2002 has been over 11 percent per year, more than twice the prior years' experience. This budget proposes a policy to cost share with higher-income veterans to address the funding of high-quality health care for our Nation's core veterans.

Although the overall veteran population is projected to continue to decline over the next 10 years, the increase in the older age groups is increasing the demand for health care (e.g., the age group 85 and over more than doubles from 2000 to 2010). The history of VA medical service provides insight into whom we treat and why we must propose a significant policy shift.

The modern VA health care system began during World War I with establishment of hospitals to treat and rehabilitate veterans with service-connected disabilities. A second role was added in 1924 with the addition of hospital care for lower-income veterans. Higher-income veterans were added on a resource-available basis in 1986 (with the provision that these veterans pay a portion of their care), and comprised about 2% of veteran patients. The Eligibility Reform Act of 1996 prioritized all veterans with higher-income veterans being in the lowest priority level (Priority Level 7). The law allowed these veterans to enroll if resources permitted but did not discontinue their cost-sharing obligation. As a result, Priority 7 veterans in the VA health care system have grown to 33 percent of enrollees and are expected to increase to 42 percent by 2010. The increased cost of health care and the projected

large increase in Priority 7 veterans requires a reassessment of the appropriate level of cost-sharing to focus the appropriation on the core veterans. The following chart illustrates the 2000–2010 changes projected in veteran enrollment by these two major priority groupings.




Based on Actuary projections of enrollment before 2003 policy proposals.

VA's request of $23.5 billion is comprised of four major resource initiatives. First, VA is proposing to establish a $1,500 annual deductible for Priority level 7 veterans (higher-income). This legislative proposal is in response to the significant growth in enrollment over the last three years, as well as anticipated future growth. The objective is to have these veterans pay a larger portion of their health care. Coupled with the recent increase in pharmacy co-payments and decrease in outpatient co-payments, this proposal makes certain that VA's health care system is able to continue providing high-quality health care to VHA's core population—service-disabled and low-income veterans.

Veterans will be assessed the deductible for their inpatient and outpatient care at a rate of 45 percent of the reasonable charges, which equals VA's cost to provide this care, up to a $1,500 annual ceiling. This legislative proposal is included in Section 423 of the General Provisions of the appropriation request. Obligation estimates in this section include the net cost and revenue associated with this deductible.

Second, VA is requesting additional resources to care for nearly 4.9 million unique patients, an increase of 156,374, or 3.3 percent, over the current 2002 estimate.

Through the Health Care Demand Initiative, VA will deliver community-based health care to veterans, which are requiring more health services as the population ages. These major health services include pharmaceuticals, access and service delivery, long-term care, prosthetics, CHAMPVA for Life, and information technology.

Management savings of over $316 million will partially offset the overall cost of the Health Care Demand Initiative with specific actions. These actions include improved standardization policies that are expected to facilitate best-value product pricing through volume purchasing and should facilitate the delivery of high-quality health care, pharmaceuticals and equipment, and other capital purchases. Resource savings are also anticipated by adherence to national criteria established to promote operational efficiencies in current and new Community-Based Outpatient Clinics (CBOCs). Likewise, resource savings are expected to result from improved guidance and control of centrally managed programs.

Third, the President made the decision to keep veterans' enrollment open for all veteran health care in 2002, preserving VA's long history of providing timely, high-quality health care to all eligible veterans. If all projections, funding levels, and the new deductible are realized, VA anticipates continued open enrollment to all veterans in 2003.

Fourth, the 2003 President's budget also fully funds the CSRS and FEHB retirement accrual as proposed in the Administration's Managerial Flexibility Act of 2001. This proposal will correct a long-standing understatement of the CSRS and FEHB true costs. A portion of CSRS, other small retirement systems, and all civilian health benefits have been charged to central accounts. The full cost of accruing benefits should be allocated to the affected salary and expense accounts so that budget choices for managers are not distorted. The shift will reduce costs from the central mandatory accounts and increase costs in the affected discretionary accounts.

VA's medical centers are no longer as geographically accessible as in the past due to the shift from inpatient to outpatient services, new technology and treatment modalities, and the shifting of the veteran population from the Northeast to the South and Southwest. Through the Capital Asset Realignment for Enhanced Services (CARES) strategic planning process, VA will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the selected option. CARES may generate significant savings from operational right sizing that will be reinvested into direct health care service enhancements.

VA's cooperative efforts with DoD continue to improve the health care delivery services of both agencies in support of the 2002 President's Management Agenda.

Over the past year, the Departments have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a reinvigorated VA and DoD Executive Council. To address some of the remaining challenges, the Departments have identified four high-priority items for improved coordination: veteran enrollment, computerized patient records, cooperation on air transportation of patients, and facility sharing instead of construction.

In 2002, the number of unique patients is expected to increase by 490,314, a 12 percent increase over the count in 2001. Priority 7 veterans are expected to increase by 208,329, or 24.8 percent, while veterans in Priorities 1-6 will grow by 7.2 percent. In 2003, VA will provide resources for nearly 4.9 million unique patients, an increase of 156,374, or 3.3 percent from the 2002 current estimate. In 2002, Priority 7 veterans' costs account for less than 10 percent of the total cost while non-veterans are less than 1 percent of the overall cost.

***Unique Patients***

| | | 2002 | | | |
|---|---|---|---|---|---|
| Description | 2001 Actual | Budget Estimate | Current Estimate | 2003 Estimate | Increase/ Decrease |
| Priorities 1-6..... | 3,049,718 | 3,063,753 | 3,267,845 | 3,375,627 | 107,782 |
| Priority 7s 1/..... | 841,153 | 699,621 | 1,049,482 | 1,085,074 | 35,592 |
| Subtotal Veterans..... | 3,890,871 | 3,763,374 | 4,317,327 | 4,460,701 | 143,374 |
| Non-Veterans 2/..... | 356,333 | 355,191 | 420,191 | 433,191 | 13,000 |
| Total Unique..... | 4,247,204 | 4,118,565 | 4,737,518 | 4,893,892 | 156,374 |

***Enrollees***

| | | 2002 | | | |
|---|---|---|---|---|---|
| Description | 2001 Actual | Budget Estimate | Current Estimate | 2003 Estimate | Increase/ Decrease |
| Priorities 1-6..... | 3,782,626 | N/A | 4,273,019 | 4,448,789 | 175,770 |
| Priority 7s 1/..... | 1,341,542 | N/A | 1,869,004 | 2,175,175 | 306,171 |
| Total Enrollees..... | 5,124,168 | N/A | 6,142,023 | 6,623,964 | 481,941 |

***Users as Percent of Enrollees***

| | | 2002 | | | |
|---|---|---|---|---|---|
| Description | 2001 Actual | Budget Estimate | Current Estimate | 2003 Estimate | Increase/ Decrease |
| Priorities 1-6..... | 80.6% | N/A | 76.5% | 75.9% | -0.6% |
| Priority 7s 1/..... | 62.7% | N/A | 56.2% | 49.9% | -6.3% |
| Total Veterans..... | 75.9% | N/A | 70.3% | 67.3% | -3.0% |

1/Priority 7 veterans are higher-income veterans.

2/Non-veterans include spousal collateral consultations and instruction, CHAMPVA workload, reimbursable workload with affiliates, humanitarian care, and employees receiving preventive occupational immunizations such as hepatitis A & B and flu vaccinations.

The VA installations by category are provided below.

***Medical Care***
***Number of VA Installations***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Veterans Integrated Service Networks | 22 | 22 | 22 | +0 |
| VA medical centers | 172 | 172 | 172 | +0 |
| VA nursing homes | 137 | 137 | 137 | +0 |
| VA domiciliaries | 43 | 43 | 43 | +0 |
| Outpatient clinics (includes hospital clinics) | 859 | 1/ | 1/ | 1/ |

1/Estimate of the number of CBOCs pending new criteria applied for proposed and existing clinics.

## *Summary of Resource Increases and Decreases*

***Summary of Resource Increases/Decreases***
***(dollars in thousands)***

| Item | FTE | Appropriation |
|---|---|---|
| I. Program changes for 2003 over 2002 funding: | | |
| 1) Health care demand intiative: | | |
| a.) Base health care demand adjustment | 6,302 | $816,552 |
| b.) Pharmacy increase above inflation | 0 | 306,649 |
| c.) Access & service delivery | 748 | 159,000 |
| d.) Anticipated open enrollment | 1,420 | 153,641 |
| e.) Long-term care | 350 | 121,307 |
| f.) CHAMPVA for life | 31 | 115,351 |
| g.) Other health care demand initiatives | 45 | 127,397 |
| Subtotal | 8,896 | $1,799,897 |
| 2) Priority 7 veteran $1,500 cost share deductible 1/ | -8,853 | -1,145,121 |
| 3) Management savings | -791 | -316,392 |
| 4) Other medical care initiatives and adjustments | 579 | 106,535 |
| Total program changes | -169 | $444,919 |
| II. Payroll for existing employees | 0 | 572,523 |
| III. CSRS/FEHB retirement accrual | 0 | 793,422 |
| IV. Inflation and rate changes | 0 | 396,241 |
| Total appropriation changes | -169 | $2,207,105 |

1/Legislative proposal reflected in Section 423 of the General Provisions of the budget request.

In 2003, the Medical Care appropriation requires an increase in total resources of $2.2 billion to implement the Health Care Demand Initiative, the Priority 7 veterans $1,500 cost share deductible proposal, anticipates providing health care to all veterans, and cover other new costs and initiatives. Payroll costs will increase $573 million to support medical care employment of 181,331. CSRS and FEHB retirement accrual costs increase $793 million to fully fund employee retirement costs. Funding increases by $396 million over the 2002 level for inflation and rate changes. The programmatic changes, described below, highlight VA's 2003 operational requirements (reflected as changes in the appropriation request in the Summary of Resources Increases/Decreases above).

- Increase of $1.800 billion and 8,896 FTE to fund the Health Care Demand Initiative. This includes the base health care demand adjustment for workload, pharmaceuticals, access and service delivery, anticipated open enrollment, long-term care, prosthetics, and information technology. It also includes $115 million for CHAMPVA for Life as the result of P.L. 107-14, The Veterans' Survivor Benefits Improvements Act of 2001.

- Decrease of $1.145 billion and 8,853 FTE associated with implementing the $1,500 cost sharing deductible for Priority 7 veterans. This proposal is estimated to reduce costs by $885 million and increase collections by $260 million, for an overall savings to the appropriation request of $1.145 billion. Section 423 of the General Provisions of the appropriations language contains the proposed legislation that requires congressional action. This budget request assumes passage of this proposal before the end of September 2002.

- Decrease of $316 million and 791 FTE for management savings that will partially offset the overall cost of the Health Care Demand Initiative by improved standardization policies to facilitate delivery of high-quality health care, pharmaceuticals and equipment, and other capital purchases.

- Increase of $107 million and 579 FTE to fund other medical initiatives and adjustments to include increases for the following:
  - Special pay provisions for pharmacists, nurse anesthetists, and physical therapists.
  - Opportunities for Faith-based and other Community-based programs, an $8 million increase.
  - Coverage for newborns consistent with typical private-sector normal pregnancy and delivery benefits packages. This proposal requires legislation that will be transmitted later to Congress.
  - Dental care provided to all former prisoners of war. This proposal requires legislation that will be transmitted later to Congress.

## Workloads and Workload Indicators

The 2003 budget provides for the medical care and treatment of 739,738 inpatients with an average daily census of 58,361, and outpatient medical visits totaling 49.2 million. Workloads and indicators of the medical care and treatment programs are shown in the following tables. The treatment emphasis is placed on meeting patient health care needs and not on the location of care; therefore, this budget continues to streamline the presentation of activities that are more comparable to what is reported in today's health care industry.

*Summary of Workloads for VA and Non-VA facilities*

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| **Acute hospital care:** | | | | |
| Average daily census | 8,066 | 8,046 | 8,035 | -11 |
| Patients treated | 438,735 | 441,450 | 443,028 | +1,578 |
| Length of stay in FY 1/ | 6.7 | 6.7 | 6.6 | -0.1 |
| **Rehabilitative care:** | | | | |
| Average daily census | 1,172 | 1,170 | 1,168 | -2 |
| Patients treated | 14,705 | 14,705 | 14,852 | +147 |
| Length of stay in FY 1/ | 29.1 | 29.0 | 28.7 | -0.3 |
| **Psychiatric care:** | | | | |
| Average daily census | 4,214 | 4,029 | 3,843 | -186 |
| Patients treated | 101,831 | 101,338 | 100,852 | -486 |
| Length of stay in FY 1/ | 15.1 | 14.5 | 13.9 | -0.6 |
| **Nursing home care:** | | | | |
| Average daily census | 31,941 | 31,963 | 33,168 | +1,205 |
| Patients treated | 87,232 | 90,351 | 97,492 | +7,141 |
| Length of stay in FY 1/ | 133.6 | 129.1 | 124.2 | -4.9 |
| **Subacute care:** | | | | |
| Average daily census | 1,701 | 1,543 | 1,435 | -108 |
| Patients treated | 41,451 | 39,946 | 39,147 | -799 |
| Length of stay in FY 1/ | 15.0 | 14.1 | 13.4 | -0.7 |
| **Residential care:** | | | | |
| Average daily census | 10,697 | 10,771 | 10,712 | -59 |
| Patients treated | 45,495 | 44,676 | 44,367 | -309 |
| Length of stay in FY 1/ | 85.8 | 88.0 | 88.1 | 0.1 |
| **Total inpatient facilities:** | | | | |
| Average daily census | **57,791** | **57,522** | **58,361** | **+839** |
| Patients treated | **729,449** | **732,466** | **739,738** | **+7,272** |
| **Non-Institutional Long-Term Care** | | | | |
| Home & Community-Based Care | | | | |
| Average Daily Census | 23,205 | 29,129 | 34,378 | +5,249 |
| **Grand Total (Inpatient & H&CBC)** | | | | |
| Average Daily Census | **80,996** | **86,651** | **92,739** | **+6,088** |

1/Similar to fiscal obligations, length of stay reflects only days of care generated in that fiscal year.

| *Summary of Workloads for VA and Non-VA Facilities (continued)* | | | | |
|---|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase (+) Decrease (-) |
| **Outpatient visits (000):** | | | | |
| Staff | 40,506 | 43,246 | 45,003 | +1,757 |
| Fee | 2,395 | 2,814 | 3,309 | +495 |
| Readjustment counseling | 907 | 910 | 910 | +0 |
| **Total** | 43,808 | 46,970 | 49,222 | +2,252 |
| **Staff and fee outpatient dental program:** | | | | |
| Staff examinations | 402,966 | 403,000 | 403,000 | +0 |
| Staff treatments | 134,628 | 140,000 | 140,000 | +0 |
| Fee cases | 11,875 | 12,000 | 12,000 | +0 |
| **CHAMPVA workloads:** [1/] | | | | |
| Inpatient census | 155 | 156 | 157 | +1 |
| Outpatient Claims: | | | | |
| CHAMPVA workloads | 1,320,147 | 1,447,751 | 1,588,274 | +140,523 |
| CHAMPVA for Life workload | 0 | 1,199,387 | 1,942,005 | +742,618 |

1/ CHAMPVA care for certain dependents and survivors of veterans is provided in both inpatient and outpatient settings.

| *Employment Analysis* *FTE by Activity* | | | | |
|---|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
| Acute hospital care | 49,586 | 48,307 | 47,303 | -1,004 |
| Rehabilitative care | 4,782 | 4,878 | 4,976 | +98 |
| Psychiatric care | 14,177 | 13,524 | 12,931 | -593 |
| Nursing home care | 20,766 | 21,168 | 21,168 | +0 |
| Subacute care | 4,651 | 4,206 | 3,916 | -290 |
| Residential care | 4,752 | 4,682 | 4,565 | -117 |
| Outpatient care | 76,386 | 76,487 | 77,873 | +1,386 |
| Miscellaneous benefits & services | 7,660 | 7,967 | 8,286 | +319 |
| CHAMPVA | 186 | 281 | 313 | +32 |
| **Total FTE** | 182,946 | 181,500 | 181,331 | -169 |

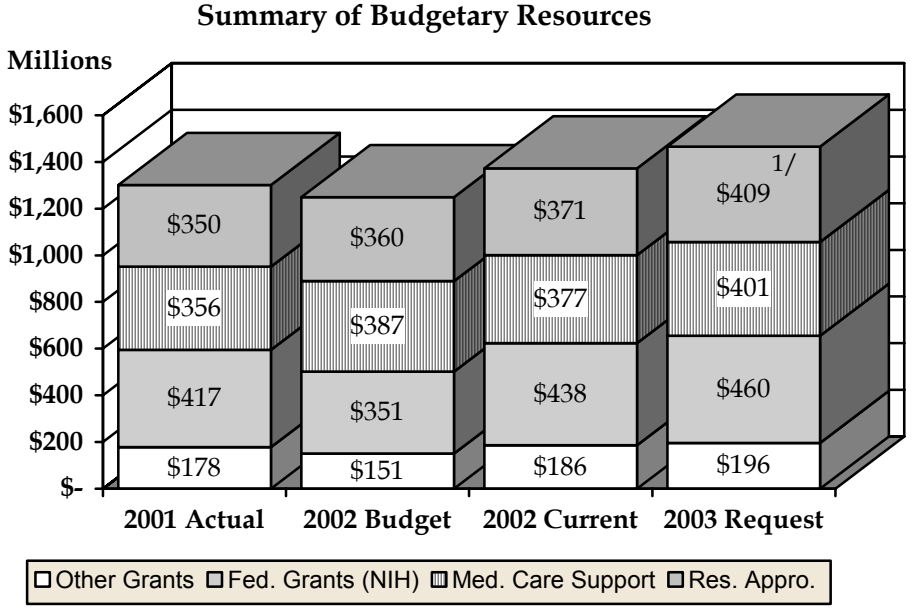
## Comparative Employment Ratios, VA Medical Centers

Staffing ratios (FTE/census) are expected to remain relatively stable in 2003. On the other hand, the number of staff per 1,000 patients treated will decline slightly in most care settings, which reflects that VA's health care system is becoming more efficient as it improves services to veterans. This table does not include contract providers at VA medical centers.

| *Comparative Employment Ratios, VA Medical Centers* | | | | |
|---|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
| **Staffing ratios (FTE/census):** | | | | |
| Acute hospital care | 6.15 | 6.00 | 5.89 | -0.11 |
| Rehabilitative care | 4.08 | 4.17 | 4.26 | +0.09 |
| Psychiatric care | 3.36 | 3.36 | 3.36 | +0.00 |
| Nursing home care | 0.65 | 0.66 | 0.64 | -0.02 |
| Subacute care | 2.73 | 2.73 | 2.73 | +0.00 |
| Residential care | 0.44 | 0.43 | 0.43 | +0.00 |
| **FTE/1,000 patients treated:** | | | | |
| Acute hospital care | 113 | 109 | 107 | -2 |
| Rehabilitative care | 325 | 332 | 335 | +3 |
| Psychiatric care | 139 | 133 | 128 | -5 |
| Nursing home care | 238 | 240 | 231 | -9 |
| Subacute care | 112 | 105 | 100 | -5 |
| Residential care | 104 | 105 | 103 | -2 |
| **FTE/1,000 outpatient visits** | 1.78 | 1.66 | 1.61 | -0.05 |

# Medical and Prosthetic Research

The Medical and Prosthetic Research account is an intramural program, whose mission is to advance medical knowledge and create innovations to advance the health and care of veterans and the nation. This appropriation provides funds for the conduct of the VA's Medical, Rehabilitation, Health Services, and Cooperative Studies research programs. The Medical and Prosthetic Research appropriation supports 28 percent of the research effort, with the balance coming from other VA appropriations as well as private and public funding contributions. It is expected that non-VA funding will increase in 2003.




1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual of $15 million only in 2003.

VA is requesting $409 million, which is a 10.2 percent increase over the 2002 level including the accrual in 2003. The increase in 2003 over 2002 without accrual was 6.2 percent. The following table summarizes the budgetary resources for the Medical and Prosthetic Research activities. In addition to receiving direct support for VA initiated research from appropriated funds, VA clinician/investigators compete for and obtain funding from other Federal and non-Federal sources. Their success is a direct reflection of the high caliber of VA's corps of researchers who are able to work in an environment conducive to research. In addition to outside funding, the Medical and Prosthetic Research program receives support from the Medical Care appropriation, which funds laboratory facilities and ancillary support services and pays a portion of clinician/investigators' salaries.

| Summary of Resources *(dollars in thousands)* | | | |
|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 1/ Estimate |
| Medical and prosthetic research appropriation | $350,228 | $371,000 | $409,075 |
| Medical care support | 355,558 | 376,704 | 400,807 |
| Federal grants | 416,992 | 437,842 | 459,734 |
| Other grants (voluntary agencies) | 177,560 | 186,438 | 195,760 |
| **Total** | $1,300,338 | $1,371,984 | $1,465,376 |

1/The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual of $15 million only in 2003.

Veteran health issues are addressed comprehensively in the four program divisions as follows:

*Medical Research.* – Medical Research strives to understand the disease process so that efficient, rational interventions can be made to cure or alleviate the effects of disease. The program supports investigator initiated research projects, the training of clinicians in basic and clinical research, and centers of excellence devoted to specific diseases. The research is done in areas particularly relevant to the veteran population – aging, chronic disease, mental illness, substance abuse, military occupations and environmental exposures.

*Rehabilitation Research.* – Rehabilitation Research is dedicated to the development and application of science and engineering to improve the care and quality of life for the physically disabled. The program supports investigator initiated research projects, the training of clinicians and engineers in rehabilitation research, centers of excellence devoted to specific disabilities and technology transfer. The research is done in areas particularly relevant to the disabled veteran population – aging, sensory loss, and trauma related illness.

*Health Services Research.* – Health Services Research is directed toward improving the outcome effectiveness and cost efficiency of health care delivery for the veteran population. The program supports investigator initiated research projects, the training of clinicians in applied clinical research, centers of excellence devoted to specific aspects of health care delivery and service directed projects addressing clinical management needs. The research focuses on the translation of research findings to clinical best practices for all veteran patients. Particular contributions are made in the areas of aging, substance abuse, health systems and special populations.

*Cooperative Studies.* – Cooperative Studies Research has recently been separated from the Medical Research and Health Services Research programs and is directed toward large multi-site clinical trials. Cooperative Studies supports the clinical trials

with its own statistical support centers and its own FDA approved pharmacy. The research determines the efficacy and cost effectiveness of new medications and new treatment strategies of direct benefit to the veteran population in the areas of aging, chronic disease, mental illness, special populations, and military occupations and environmental exposures.

In 2003, the research program will continue its strong support of projects originated in prior years. In addition, it will continue its strong commitment and increased emphasis on Designated Research Areas (DRA's) highly relevant to the health care needs of veterans.

***Obligations, Budget Authority, and Employment***
***(dollars in thousands)***

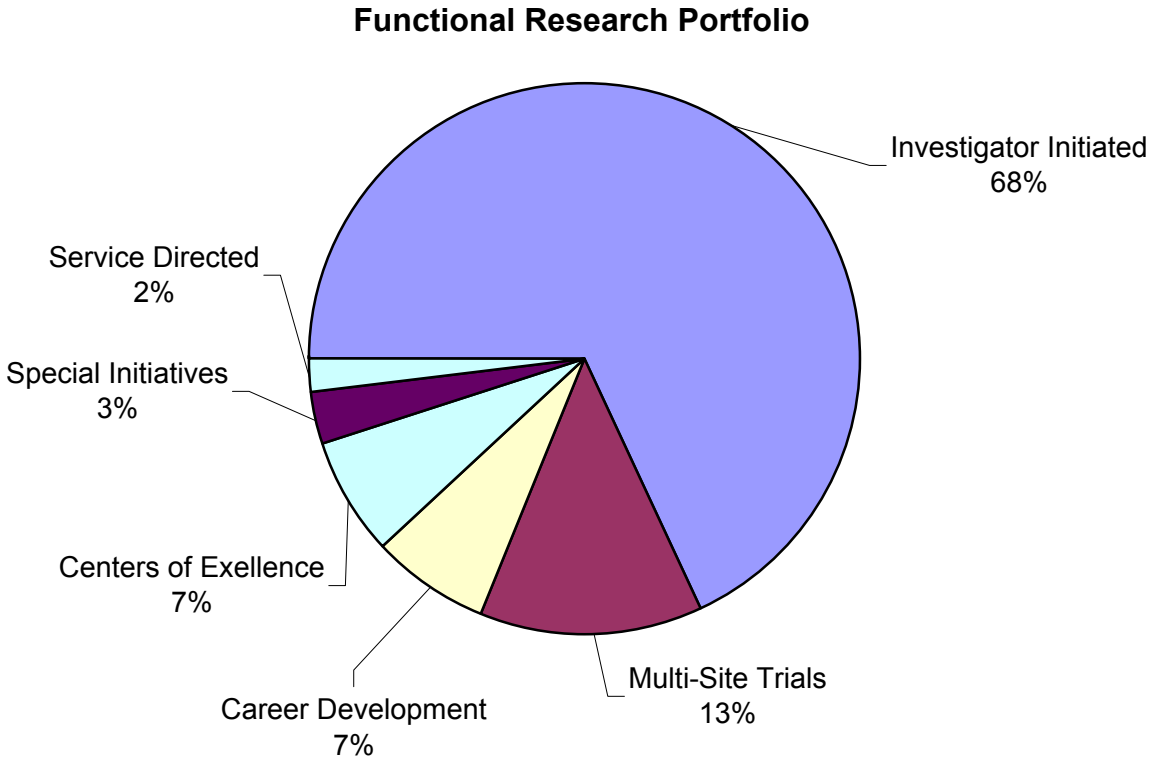
| | 2001 Actual | 2002 Estimate | 2003 1/ Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| **Medical and Prosthetic Research:** | | | | |
| Obligations | $364,461 | $430,807 | $442,075 | +11,268 |
| Reimbursements (total) | -27,036 | -33,000 | -33,000 | 0 |
| **Average employment (FTE):** | | | | |
| Direct | 2,796 | 2,723 | 2,907 | +184 |
| Reimbursable | 223 | 260 | 260 | 0 |
| **Total** | 3,019 | 2,983 | 3,167 | +184 |
| **Appropriation** | $350,228 | $371,000 | $409,075 | +$38,075 |
| **Outlays:** | | | | |
| Obligations, net | $337,425 | $397,807 | $409,075 | +$11,268 |
| Obligated balance, start of year | 102,259 | 96,914 | 129,982 | +33,068 |
| Obligated balance, end of year | (96,914) | (129,982) | (136,723) | -6,741 |
| Adjustments in expired accounts | (3,714) | 0 | 0 | 0 |
| **Total Outlays** | $339,056 | $364,739 | $402,334 | +$37,595 |

1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual only in 2003.

For Medical and Prosthetic Research, a total of $409.1 million and 3,167 FTE will provide 28 percent of the $1.5 billion total research funding and support over 2,780 high-priority research projects focused in Designated Research Areas (DRAs). The number of projects will increase by 76 from the 2002 level. This level of funding will also support 184 additional staff. The other funding support comes from Medical Care, $401 million, and other federal and private medical research organizations such as the Department of Defense and National Institute of Health. The $409 million appropriation request is an increase of $38 million, or 10.2 percent, above the 2002 level. This increase is comprised of $14.7 million to fund the CSRS and FEHB retirement accrual, which was shifted from central accounts to the program accounts, or a 6.2 percent real increase in VA's research program. This level of funding will allow the research program to maintain research centers in the areas of

Gulf War illnesses, diabetes, heart disease, chronic viral diseases (e.g., HIV/AIDS), Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, and women's issues, as well as rehabilitation and Health Services Research and Development (HSR&D) field programs. VA will continue to seek to increase non-appropriated research funding from the private and public sectors. The 2003 request for $409.1 million will maintain the research effort directed towards improving veterans health and care.

The Functional Research Portfolio pie chart that follows shows the distribution of VA's research among five different types of investigative approaches. The investigator-initiated research and Multi-site Trials portion of the portfolio make up 81 percent of the entire program. This is indicative of the openness of the system to new ideas.

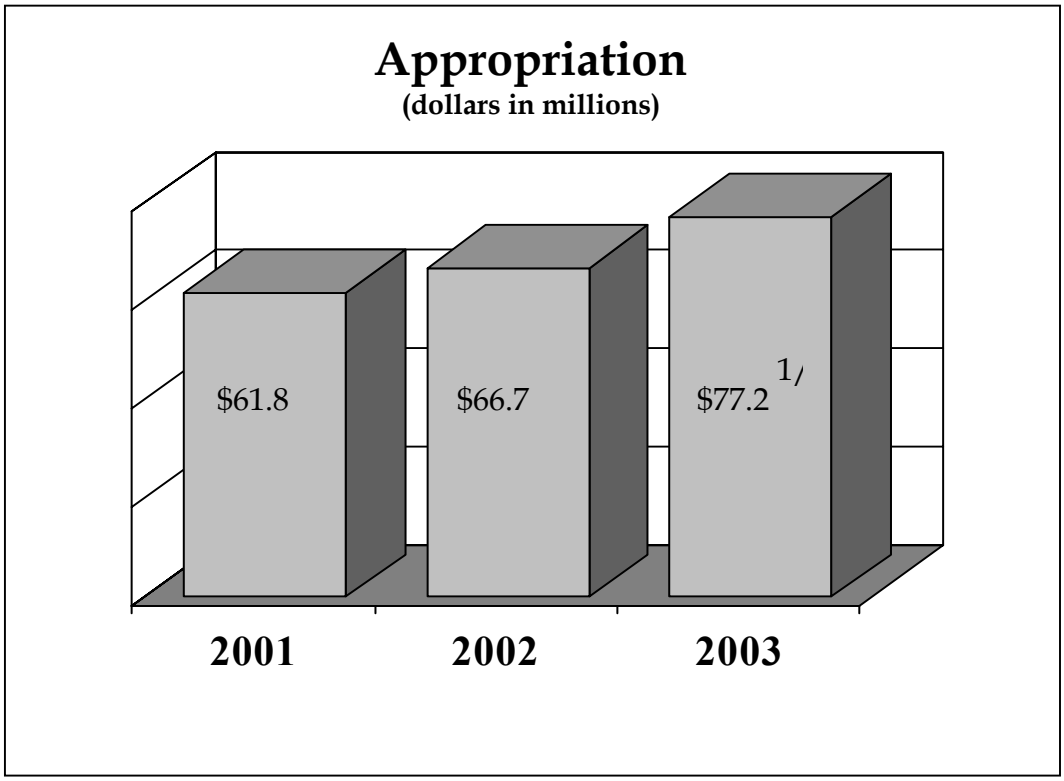


| *Projects by Designated Research Areas* | | | | |
|---|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase (+) Decrease(-) |
| Designated Research Areas: | | | | |
| Aging | 470 | 478 | 489 | 11 |
| Chronic disease | 1,538 | 1,565 | 1,603 | 38 |
| Mental illness | 169 | 172 | 176 | 4 |
| Substance abuse | 146 | 148 | 152 | 4 |
| Sensory loss | 74 | 75 | 77 | 2 |
| Trauma related illness | 199 | 202 | 207 | 5 |
| Health systems | 218 | 221 | 227 | 6 |
| Special populations | 104 | 105 | 108 | 3 |
| Military occupations & environmental exposures | 137 | 139 | 142 | 3 |

The Designated Research Areas (DRA) listed above, represent areas of particular importance to our veteran population. Because of the multiplicative nature of research, many individual research projects have a bearing on more than one DRA. For example, heart disease relates both to chronic disease and aging. This research helps us perform our mission "to discover knowledge and create innovations that advance the health and care of veterans and the nation."

# Medical Administration and Miscellaneous Operating Expenses (MAMOE)

The Medical Administration and Miscellaneous Operating Expenses (MAMOE) appropriation provides the supervision and administration activities that support VA's comprehensive and integrated health care system's goals and objectives. MAMOE activities include the development and implementation of policies, plans and broad program activities; assistance for the networks in attaining their objectives; and necessary follow-up action to insure complete accomplishment of goals. For 2003, VA's management will be involved in the Capital Asset Realignment for Enhanced Services (CARES). This initiative is to enhance health care services to veterans by realigning capital assets. The Facilities Management Service Delivery Office is funded on a reimbursable basis by other VA components. This office supports project management, architectural, engineering, real property acquisition and disposition, construction and renovation of facilities under the jurisdiction of, or for use by, the Department of Veterans Affairs.




1/ The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual only in 2003.

The appropriation requested for 2003 is $77.2 million, an increase of $10.5 million from the 2002 appropriated level. This increase includes $7.5 million to fund the

CSRS and FEHB retirement accrual, which was shifted from central accounts to the program accounts.

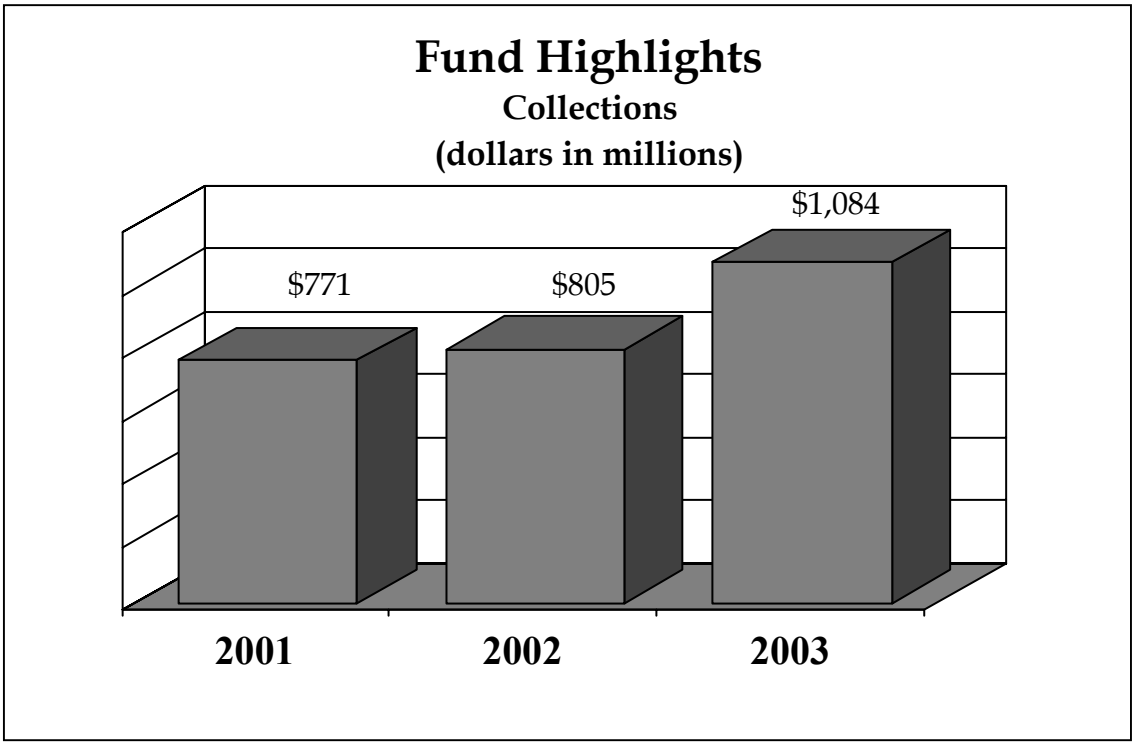
| *Obligations, Budget Authority, and Employment (dollars in thousands)* | | | | |
|---|---|---|---|---|
| | 2001 Actual | 2002 Estimate | 2003 1/ Estimate | Increase(+) Decrease(-) |
| **Program:** | | | | |
| Obligations | $68,929 | $74,235 | $84,369 | +$10,134 |
| **Financing:** | | | | |
| Appropriation (gross) | 62,000 | 66,731 | 77,214 | +10,483 |
| Transfer to general operating exp. | -84 | 0 | 0 | 0 |
| Recession P.L. 106-554 | -136 | 0 | 0 | 0 |
| Reimbursement | 7,200 | 7,504 | 7,155 | -349 |
| Unobligated balance (SOY) | 783 | 2,026 | 2,026 | 0 |
| Unobligated balance (EOY) | -2,026 | -2,026 | -2,026 | 0 |
| Adjustments in expired accts. | 1,192 | 0 | 0 | 0 |
| **Budget authority** | $68,929 | $74,235 | $84,369 | +$10,134 |
| **Average employment (FTE)** | 528 | 545 | 545 | +0 |

1/The Administration is proposing that Agencies pay the full cost of the accrual for CSRS and FEHB in 2003. This chart reflects the costs of the accrual only in 2003.

The MAMOE activity is requesting $77.2 million in appropriations augmented by $7.2 million in reimbursements to fund 545 FTE supporting operations in 2003. This request, as in 2002, includes reimbursement authority for activities related to the Facilities Management Service Delivery Office. This office will receive reimbursement from Medical Care, Veterans Benefits Administration, and National Cemetery Administration for field related project management. This reimbursement will allow VA to utilize appropriation funding in high priority areas to hire additional staff in the areas of quality management and performance measurement. This appropriation funding level will allow MAMOE to concentrate upon the highest priorities at HQ to assure that quality care is delivered to the veterans of the Nation. Capital policy activities will still be funded by the appropriation.

# Medical Care Collections Fund

Public Law 105-33, the Balanced Budget Act of 1997, established the Department of Veteran Affairs Medical Care Collections Fund (MCCF) and requires that amounts collected or recovered after June 30, 1997, be deposited in this fund. P. L. 105-33 also extended to September 30, 2002, the following Omnibus Budget Reconciliation Act (OBRA) provisions: 1) authority to recover co-payments for outpatient medication and nursing home and hospital care; 2) authority for certain income verification authority; and 3) authority to recover third party insurance payments from service-connected veterans for nonservice-connected conditions. Legislation is currently proposed to extend this authority permanently.




P.L. 106-117 authorized the Secretary to increase the $2 prescription drug co-payment, establish a maximum annual and monthly payment applicable to veterans with multiple outpatient prescriptions, and revise co-payments in outpatient care for higher-income, nonservice-connected veterans. Prescription co-payments will increase from $2 to $7 in February 2002. Receipts and collections under the new authority will be deposited in the Health Services Improvement Fund (HSIF). VA is proposing legislation to establish a $1,500 annual deductible for Priority 7 veterans (higher income), which will increase the MCCF collections by an estimated $260 million in 2003.

## Improving Collections in the Future

- VA implemented Reasonable Charges in September 1999. These charges are comparable to charges used in the private sector for the same services in a specific geographic area. Inpatient Diagnosis Related Groups (DRG) based rates and outpatient procedure rates will be used to determine the charges. These rates are expected to increase all recoveries and help raise the revenue by over $200 million in 2001. VA is billing in a way that more accurately captures the care provided.

- Accurate insurance information is critical for VHA to maintain and exceed its current levels of recoveries. The past few years have seen a dramatic decline in inpatient days of care provided and a large increase in the number of outpatient clinic visits. This shift translates into lower revenues for inpatient services and a higher workload for outpatient care. VHA has mandated that all facilities establish patient pre-registration, to include the use of software that assists in gathering and updating the patient insurance information files.

- VA is working with Medicare contractors to prepare documentation for veterans covered by Medicare who use VA facilities. This documentation should improve collections from Medicare supplemental insurers.

- Over the past year, VA has made considerable progress in terms of executing a new outsourcing business plan to reconfigure the revenue collection program. That progress has culminated in the initiation of four pilot tests at VISNs 2, VA Healthcare Network Upstate New York; VISN 6, The Mid-Atlantic Network; VISN 12, The Great Lakes Health Care System; and VISN 15, VA Heartland Network. VA expects to complete these four pilot tests by December 2002.

***Summary of Fund Activity***
*(dollars in thousands)*

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Third party collections | $540,000 | $577,000 | $529,000 | -48,000 |
| First party collections | 230,804 | 228,000 | 554,874 | +326,874 |
| Total Collections Transferred to Medical Care | $770,804 1/ | $805,000 | $1,083,874 | +278,874 |

1/ Reflects the collections received by VA; in 2001, $767,687 were transferred to the medical care account due to difference in time from when the funds are received and transferred into the medical care account. The remainder will be transferred in 2002.

## Extended Care Revolving Fund

The Veterans Millennium Health Care and Benefits Act, P.L. 206-117, established the Extended Care Revolving Fund. This fund receives per diems and co-pays from certain patients receiving extended care services as authorized in title 38, U.S.C., Section 1710(B). Amounts deposited in the fund are used to provide extended care services. VA estimates that in 2003 we will collect $40 million under this provision. Long-term care services will be provided by the Medical Care account on a reimbursable basis from this revolving fund.

## Health Services Improvement Fund (HSIF)

The Millennium Health Care and Benefits Act, P.L. 106-117, established the Health Services Improvement Fund. It requires VA to deposit funds received or collected as a result of: 1) any increase in pharmacy co-payments; 2) VA's amended enhanced use-lease authority; and 3) VA's agreement with DoD for the proposed provision of care to eligible military retirees. The funds are available without fiscal year limitation. In 2003, the only deposits to this fund are for the dollars associated with the increase in pharmacy co-payments of $364 million and enhanced use-lease of $1 million. The budget assumes that the pharmacy co-payments will increase from $2 to $7 starting in February 2002, $5 of which will be deposited into this fund. The budget classifies these funds as mandatory receipts and the funds are available without further appropriation action to the Medical Care account starting in 2002.

***Summary of Fund Activity***
*(dollars in thousands)*

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Millennium Act (P.L. 106-117) Collections: | | | | |
| Health Services Improvement Fund: | | | | |
| Medication Copayments | 0 | 225,000 | 364,000 | +139,000 |
| Enhanced Use | 0 | 1,000 | 1,000 | +0 |
| Total Collections | $0 | $226,000 | $365,000 | +$139,000 |

# Canteen Service Revolving Fund

Current revenues finance this revolving fund and provide for the maintenance and operation of the Veterans Canteen Service at all VA hospitals and domiciliaries. The canteens provide reasonably priced merchandise and services to comfort veterans in hospitals, nursing homes, and domiciliaries.

***Profit and Loss Statement***
***(dollars in thousands)***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Average employment | 2,933 | 3,025 | 3,000 | -25 |
| Revenue | $220,266 | $230,950 | $232,675 | +$1,745 |
| Expense (-) | -221,131 | -229,375 | -231,443 | -2,068 |
| **Net operating income** | -$865 | $1,575 | $1,252 | -$323 |
| Non-operating income (+) or loss (-) | 900 | 1,135 | 980 | -155 |
| **Net income** | $35 | $2,710 | $2,232 | -$478 |
| Outlays | $5,948 | $1,500 | $521 | -$979 |

# Special Therapeutic and Rehabilitation Activities Fund

This revolving fund, established by Public Law 94-581, provides a mechanism for furnishing rehabilitative services to certain veteran beneficiaries receiving medical care and treatment from VA. This is a self-sustaining fund that does not require an appropriation. Funds deposited in this account are derived from actual work performed by patients and members in VA health care facilities under contracts developed with private industry, non-profit organizations and state and Federal entities. The Special Therapeutic and Rehabilitation Fund (STRAF) pays for: patient salaries; the purchase of equipment, supplies and contractual services necessary to complete the subcontracted work; and the travel of Compensated Work Therapy (CWT) staff for demonstrative and educational purposes.

The estimated 2003 revenue of $38,047,000 is $964,000 more than the 2002 program level.

***Revenue and Expense***
***(dollars in thousands)***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Revenue | $36,724 | $37,083 | $38,047 | $964 |
| Expense | -34,750 | -35,832 | -36,764 | -$932 |
| **Net income** | **$1,974** | **$1,251** | **$1,283** | **$32** |

# Medical Facilities Revolving Fund

The Medical Facilities Revolving Fund was established by the Veterans Benefits Act of 1992 (P.L. 102-568) and consists of funds transferred from the Compensation and Pensions (C&P) appropriation. Public Law 105-368, Veterans Programs Enhancement Act of 1998, has granted permanent authority for the transfer of pension funds in excess of $90 per month from the C&P account, in accordance with the provisions of title 38 U.S.C., Section 5503(a)(1)(B). These funds are used to assist in the operation of VA medical facilities.

Under the provisions of 38 U.S.C. Chapter 55, veterans who do not have either a spouse or child, may have their monthly pension payments reduced to $90. This reduction begins after the end of the third full calendar month a veteran is admitted for nursing home care. The difference between the veteran's regular monthly pension payment and the $90 is deposited into this revolving fund for future use by the individual VA facility. VA uses these no-year funds for non-payroll items, excluding employee travel at the VA facility providing the patient's care.

***Fund Highlights***
***(dollars in thousands)***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Appropriation (from pension) | | | | |
| Obligations | $1,511 | $1,550 | $1,590 | +$40 |
| Outlays (net) | $713 | $585 | $576 | -$9 |

# Medical Center Research Organizations

Public Law 100-322 added a subchapter to Chapter 73 of title 38 entitled "Medical Center Research Organizations." This public law authorized the creation of Department of Veterans Affairs' medical center nonprofit organizations to provide a flexible funding mechanism for the conduct of research. These organizations derive funds to operate various research activities from Federal and non-Federal sources. This fund is self-sustaining, and requires no appropriation to support these activities.

***Fund Highlights***
***(dollars in thousands)***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| Contributions | $173,733 | $178,076 | $182,706 | +$4,630 |
| Obligations (Expenses) | $157,448 | $161,384 | $165,580 | +$4,196 |
| Outlays (net) | $0 | $0 | $0 | $0 |

# General Post Fund, National Homes

This trust fund is used to promote the comfort and welfare of veterans in hospitals and homes where no general appropriation is available. The fund consists of gifts, bequests and proceeds from the sale of property left in the care of VA facilities by former beneficiaries who die leaving no heirs or without having otherwise disposed of their estate. Donations from pharmaceutical companies, nonprofit corporations, and individuals to support VA medical research can also be deposited into this fund.

No appropriation funding is being requested for the transitional housing loan program for 2003 because no loan activity on this program has occurred since its inception in September 1994. Although there were numerous inquiries about the program and requests for application materials, to date only one complete application has been received (which was disapproved due to the financial status of the organization and planned use of loan proceeds).

***Obligations and Budget Authority***
***(dollars in thousands)***

| | 2001 Actual | 2002 Estimate | 2003 Estimate | Increase(+) Decrease(-) |
|---|---|---|---|---|
| **Program:** | | | | |
| Obligations | $30,871 | $31,674 | $31,967 | +$293 |
| **Budget authority (permanent, indefinite)** | $35,295 | $36,213 | $36,466 | +$253 |